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GLEN LAKE SILVER MINES LIMITED

ANNUAL REPORT 1967





GLEN LAKE SILVER MINES LIMITED

Directors B. NIXON APPLE, Q.C., *Toronto, Ontario*
DR. H. ROE BARTLE, *Kansas City, Missouri*
FRANK CADESKY, *Toronto, Ontario*
A. J. FORTENS, *Toronto, Ontario*
FORREST MCCLUNEY, *Kansas City, Missouri*

Officers FRANK CADESKY, *President*
A. J. FORTENS, *Vice-President*
B. NIXON APPLE, Q.C., *Secretary-Treasurer*

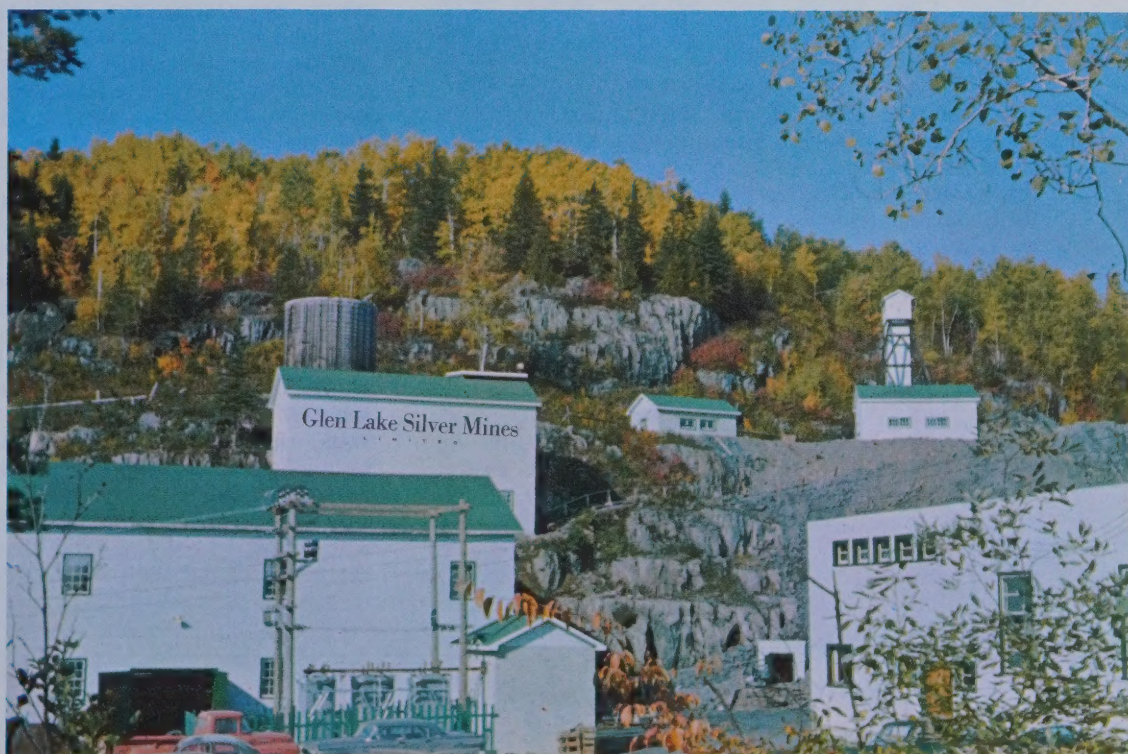
Head Office 365 Bay Street, *Toronto, Canada*

Mine Office *Cobalt, Ontario*

*Transfer Agent
and Registrar* GUARANTY TRUST COMPANY OF CANADA
Toronto, Canada

Auditors FISHER, NISKER & COMPANY,
Chartered Accountants,
Toronto, Canada

Solicitors SALTER, REILLY, JAMIESON & APPLE,
Toronto, Canada



Hiho Silver's
surface plant at
Cobalt, Ontario.



GLEN LAKE SILVER MINES LIMITED

Report of the Directors

Your Board presents herewith our Fifth Annual Report containing the consolidated audited financial statements reflecting the operations of Glen Lake Silver Mines Limited and its wholly owned subsidiary, Hiho Silver Mines Limited, for the fiscal year ending July 31st, 1967.

Since our last Annual Report there have been a number of important developments relating to the silver industry. World demand for the metal continues to grow, as consumption outstrips production. Following removal by the U.S. Treasury of the ceiling price on silver, the world market price has increased from the old ceiling price of U.S. \$1.29 to over U.S. \$2.00, with indications of going still higher.

Experts in the mining industry have confidently predicted that Canada will replace Peru as the third largest silver producing nation in the free world (behind the United States and Mexico).

MINE DEVELOPMENT:

The report of our mine manager, Mr. M. C. Halstead is reproduced in the Annual Report. As will be seen, production of silver was down during the past year totalling 1,107,616 ounces as compared with 1,354,685 ounces for the preceding twelve month period and this has resulted in lower earnings for the year. The decline experienced in silver production was attributable to the milling of lower grade ores during the period. Again most of our production came from the Hiho, Cleopatra and Giroux Lake mines, with 301,852 ounces being produced from the Glen Lake Mine. In all, our Glen Lake mine has produced 3,051,844 ounces of silver under our operations down to July 31st, 1967.

Since the area of the Glen Lake claims is comparatively small, your management foresaw some time ago definite limits on production and for this reason considerable expenditures and time have been devoted to the exploration work undertaken by Hiho Silver. This has resulted in the discovery of the Cleopatra mine and more recently the Giroux Lake mine.

Current silver prices have greatly affected the economics of silver mining operations at Cobalt. Certain silver bearing material that had not previously been mined or milled because the silver content was economically too low can now be profitably treated. As our shareholders are aware, Management has, during the past few years, accelerated a program to greatly expand our property holdings at Cobalt. Initially, two leases covering a number of claims were acquired from Silver Miller Mines Limited in 1963 and it has been on this ground that the Cleopatra and Giroux Lake mines have been located.

One of the 1963 leases from Silver Miller covered the Kerr Lake Claim upon which there is a substantial stockpile of broken rock. Some months ago we concluded arrangements whereby we exchanged the Hiho mill for a mill at Cobalt known as the LaRose Mill, which has a milling capacity almost twice that of the Hiho mill. Pumps were installed and dewatering operations commenced at Kerr Lake to make the rock in the stockpile available. As referred to in Mr. Halstead's Report, the broken rock from the Kerr Lake Claim is being processed at the LaRose Mill. The grade of the rock is running above expectation and the operation exceeds projected anticipated returns. We have leased the Hiho mill which is currently treating Glen Lake and Hiho ores so that we are presently operating two mills.

A few months ago we successfully concluded an agreement with Silver Miller Mines Limited whereunder we have leased the balance of their holdings in the Cobalt Camp. We have agreed to expend on these properties at least \$50,000 per year in exploration and development work, which amount is well within our budget projected for this purpose. Profits derived from production from these properties are to be applied initially to reimburse us for our expenditures and thereafter earnings from this operation will be divided as to 75% to ourselves and 25% to Silver Miller.

The Fall of 1966 also saw the conclusion of a lease on properties adjoining the Kerr Lake Claim known as the Crown Reserve which also contains a substantial stockpile of broken rock. We are currently negotiating for additional milling capacity designed to treat this stockpile, and it is hoped that milling operations will commence around the first of the year 1968. Selective sampling of this stockpile indicates, based on current silver prices, a silver content sufficiently high to show a profit from this operation.

Your Directors have predicted for some time substantial increases in the price of silver which finally occurred in May of 1967. While price increases did have some effect on earnings their effects were only felt with respect to the months of June and July of 1967. Higher silver prices occurred at a most opportune time since in July was concluded a new two-year agreement with the Union representing our employees at Cobalt. Substantial wage increases were granted and while this will add to our labour costs it will also assist us in maintaining adequate mine personnel. The new agreement was satisfactory to both labour and management and was concluded without interrupting production. Our smelter contract with the Cobalt refinery was also re-negotiated with provisions being made for increased smelting tariffs. While the foregoing add to our cost of operations, they are more than offset

by the substantially higher price for silver now being received — in excess of \$2.00 Canadian per ounce as compared with an average of \$1.55 per ounce during the last fiscal year.

EARNINGS

Operating profit for the past year was \$465,418 as compared with \$738,149 for the preceding year. Outside exploration was slightly higher at \$125,190 as compared with \$114,035. Net profit amounted to \$97,016 as contrasted with \$347,464 for the prior year after making provision for depreciation and amortization write-offs of \$250,969 as compared with \$285,812 for the year ending July 31st, 1966.

During the current fiscal year increased operating expenses will be more than off-set by higher silver prices. Assuming production of at least the same number of ounces as were produced last year, we should enjoy substantially increased earnings in the present year.

TAXATION

As shareholders will recall, a claim was filed under the Income Tax Act for a three year tax free period covering the Hiho Cleopatra mine from August 1st, 1964 to July 31st, 1967. In June of 1967 we filed a still further claim for a three year tax free period respecting the new Hiho Giroux Lake mine. A short time ago we met with officials of the Tax Department in Ottawa at which time our claims were reviewed in their entirety. We have now heard from the Department which has advised that they are not prepared to concede the three year tax free periods claimed with respect to the Cleopatra and Giroux Lake mines, their contention being that the Glen Lake and Hiho mines are one single operation. This ruling is not acceptable and is being vigorously opposed by Management through our counsel who have been instructed to launch an appeal at the earliest possible opportunity.

In any event, and even accepting the position taken by the Department, it would follow that the three year tax free period enjoyed with respect to the Glen Lake mine would also cover the operations of the Cleopatra Mine down to July 31st, 1965, so that its first year's production would be tax free.

Just prior to the preparation of this Report, our auditors were instructed to make calculations of the possible tax exposure assuming the correctness of the Department's ruling. Preliminary calculations indicate that no taxes would be payable by our consolidated operations for 1965 and 1966 and if any tax is payable for the 1967 fiscal year it would be modest.

Our counsel have again been asked for their opinion concerning the Hiho claim for a new mine exemption respecting the Cleopatra mine and they have reiterated their view that Hiho should succeed in its appeal. It should accordingly follow that the Giroux Lake mine exemption claim would also ultimately be decided in our favour.

DIVIDENDS

The cash flow enjoyed by your Company in the last two fiscal years was sufficient in the Board's opinion to warrant further dividend payments. As a consequence dividends totalling 7.5¢ per share have been paid during 1967. We have undertaken and currently have underway an extensive exploration and development program in the Cobalt camp and it is essential that the Company budget adequate funds for this purpose since it is only through the development of additional ore reserves that we may continue and increase our earnings. Looking to the future, your Board of Directors is presently endeavouring to develop a formula which will provide funds for exploration, adequate reserves, and reasonable dividends for stockholders. It is the hope of management that such a policy will be settled upon and implemented in the near future.

Enclosed with the Annual Report is a Notice of our forthcoming Annual General Meeting of Stockholders. An Instrument of Proxy accompanies the Notice and if you are unable to be present you are requested to complete, sign and return the Proxy to ensure your representation at the meeting.

Respectfully submitted,

On behalf of the board,

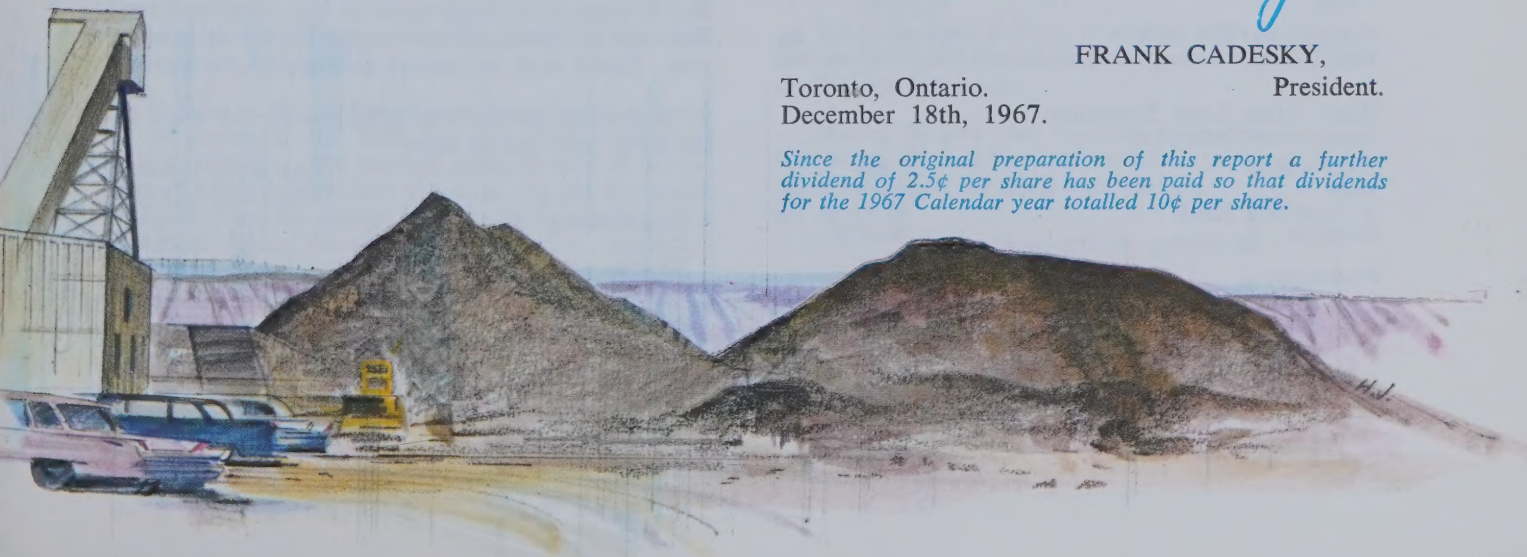
Frank Cadesky

FRANK CADESKY,

Toronto, Ontario.
December 18th, 1967.

President.

Since the original preparation of this report a further dividend of 2.5¢ per share has been paid so that dividends for the 1967 Calendar year totalled 10¢ per share.





GLEN LAKE SILVER MINES LIMITED

Report of the General Manager

The President & Directors,
Glen Lake Silver Mines Limited,
Suite 503 — 365 Bay Street,
Toronto, Ontario.

Gentlemen:

I am pleased to present my report on Glen Lake Silver Mines Limited and its wholly-owned subsidiary, Hiho Silver Mines Limited, for the fiscal year August 1, 1966, to July 31, 1967.

Following are the production figures for the mines' fiscal year and also the total figures from inception of milling in July, 1962.

GLEN LAKE - BAILEY MINE

August 1/66 - July 31/67

Tons Milled	7,078
Tails	6,561 oz. Ag
Average Mill Heads	43.57 oz. Ag
Recovery	97.87%

Production:

August	Nil
September	81,464.20
October	52,419.44
November	40,051.94
December	5,671.58
January	48,116.42
February	21,398.61
March	34,168.12
April	Nil
May	Nil
June	Nil
July	18,562.01

Aug. 1/66 - July 31/67	301,852.32 oz. Ag
Total Production Aug. 1/62 to date:	3,051,844.03 oz. Ag

HIHO - GLEN LAKE SUBSIDIARY

August 1/66 - July 31/67

Tons Milled	30,983
Tails	24,184
Average Mill Head	25.80 oz. Ag
Recovery	96.97%

Production:

August	84,958.51
September	38,304.51
October	65,521.39
November	71,409.68

December	77,845.23
January	51,887.56
February	51,570.62
March	56,372.38
April	85,135.66
May	85,263.19
June	66,401.39
July	40,694.15
Aug. 1/66 - July 31/67	775,364.27 oz. Ag
Total Production to Date	2,705,310.80 oz. Ag

KERR LAKE - HIHO LEASE

Tons Milled	6,350
Tails	5,908
Average Mill Heads	5.7 oz. Ag
Recovery	83.72%

Production:

June	5,068.00
July	25,331.20
Total Production Aug. 1/66 - To Date:	30,399.20 oz. Ag
Total Production Aug. 1/66 - July 31/67 — Glen Lake, Hiho & Kerr Lake	1,107,615.79 oz. Ag
Total Production To Date	5,787,554.03 oz. Ag

DEVELOPMENT

Development work during the year was carried out on both the Glen Lake and Hiho Silver Mines properties.

GLEN LAKE - BAILEY MINE

At the start of the year, new ore was found by diamond drilling in the Keewatin, 100 feet below the No. 6 Vein system. This proved to be very rich silver ore and accounted for most of the silver produced from the Bailey Mine during the year.

Diamond drilling, followed by cross cutting, has recently found a silver vein lying to the east of the No. 4 Vein on the 4th level of the mine workings. This will be developed and mined during the coming year. Initial work indicates a good grade of silver ore.

Following are the total advances for the mine for the fiscal year and to date:

	Aug. 1/66 - July 31/67	Totals To Date
Cross Cutting	309'	3,950'
Drifting	146'	3,512'
Raising	36'	1,751'
Sinking #1 Winze	nil	170'
Diamond Drilling:		
Surface	nil	14,406'
Underground	11,698'	69,408'

HIHO - CLEOPATRA MAIN SHAFT

During the year the third level of the mine, at a depth of 235 feet, was opened up. Mining of the veins which extended to this depth have proved patchy, but they have also produced considerable silver and added to our production.

Veins are being developed on both the first and second levels of the mine. The veins are cross veins from the main veins and new veins found by diamond drilling which parallel or strike off at various angles to the main veins.

A summary of the development work at the Hiho-Cleopatra follows:

	Aug. 1/66 - July 31/67	Totals To Date
Cross Cutting	1,270'	3,440'
Drifting	1,032'	4,036'
Raising	242'	537'
Main Shaft Sinking	nil	235'
Diamond Drilling:		
Surface	1,959'	5,761'
Underground	10,467'	49,894'

HIHO - GIROUX LAKE MINE

During the year the 291 foot level was opened up by completing the 291 cross cut to the ore and with drifts on the ore. The 3-1 south vein was found by diamond drilling to extend below the 291 foot level. A 100 foot winze was sunk and the veins which extend down to this level will be developed during the coming year. Diamond drilling indicates an average grade of between 25 and 30 ounces of silver per ton.

Development work during the year is as follows:

	Aug. 1/66 - July 31/67	Totals To Date
291 Winze (shaft proper)	114'	114'
291 Winze Head Frame Raise	46'	46'
291 Winze Rope Raise	45'	45'
Cross Cutting	577'	929'
Drifting	132'	734'
Raising	459'	678'
Surface Diamond Drilling	nil	7,352'
Underground Diamond Drilling	10,247'	23,321'

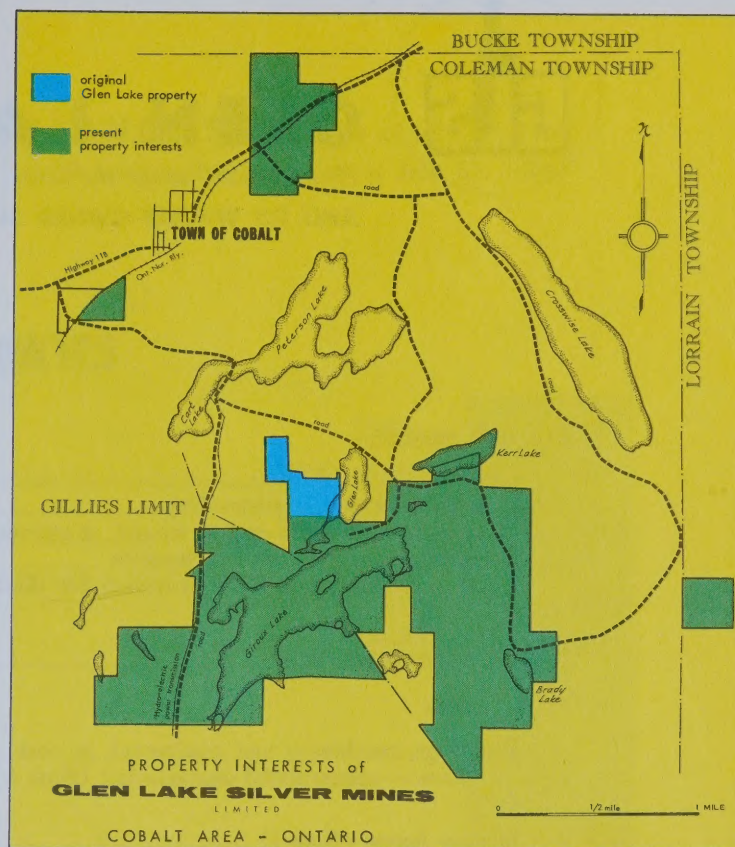
HIHO - KERR LAKE PROPERTY

The Kerr Lake, on the Kerr Lake property, has been dewatered and dewatering of the many miles of underground workings connected to this property is planned for the coming year.

Milling of the surface dumps commenced as soon as the water in the lake was low enough to start hauling the ore. The average grade to date of 5.7 oz. Ag per ton is higher than the 4 oz. Ag per ton grade expected from the dumps. Plans are to continue this operation during the winter months.

HIHO - NU-SILCO PROPERTY

A cross cut from the Hiho-Cleopatra property was driven to the boundary of the Nu-Silco property at



which point considerable underground drilling was done. This drilling indicated an ore structure. Surface drilling was done to try and prove this structure but it failed to indicate a commercial ore body.

Diamond drilling was as follows:

	Aug. 1/65 - July 31/66	Aug. 1/66 - July 31/67	Total To Date
Surface Diamond Drilling	4,049'	4,521'	8,570'
Underground Diamond Drilling	nil	2,096'	2,096'

DIAMOND DRILLING

All the ore found at the Glen Lake - Bailey Mine, Hiho Cleopatra and Hiho Giroux Lake Mines has been found by diamond drilling. It is part of our monthly exploration costs and one of the most necessary parts of our work.

Total diamond drilling from July 1961 to date, on surface is 40,966 feet and underground 156,741 feet, or 207,707 feet in all.

During the past year I have had excellent co-operation from all members of the Mine staff and it has been a pleasure working with them.

Respectfully submitted,

M. C. HALSTEAD, B.Sc., P.Eng.
General Manager.

October 17, 1967.



GLEN LAKE SILVER MINES

(Incorporated under the Laws of the Province of Ontario)

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

ASSETS

CURRENT ASSETS	1967	1966
Cash	\$ 50,394	\$ 35,453
Smelter settlements outstanding	299,012	378,806
Concentrates on hand and in transit, at estimated net realizable value	76,982	102,399
Receivable from affiliated companies	34,717	51,314
Other receivables less \$591 provision for doubtful accounts	4,652	14,713
	<u>\$ 465,757</u>	<u>\$ 582,685</u>
SPECIAL REFUNDABLE TAX	\$ 24,471	\$ 5,350
 FIXED ASSETS		
Buildings, machinery and equipment, at cost	\$ 641,501	\$ 596,254
Less — accumulated depreciation (Note 4)	473,866	364,132
	<u>\$ 167,635</u>	<u>\$ 232,122</u>
Mining leases (Note 1)	35,005	35,002
Mining claims (Note 2)	130,001	135,896
Mining claims held under option to purchase (Note 3)	30,000	70,000
	<u>\$ 362,641</u>	<u>\$ 473,020</u>
 DEFERRED EXPENDITURES AND OTHER ASSETS		
Development and preproduction expenditures	\$ 427,344	\$ 427,344
Shaft sinking and related costs	293,666	226,855
	<u>\$ 721,010</u>	<u>\$ 654,199</u>
Less — accumulated amortization (Note 4)	579,780	438,550
	<u>\$ 141,230</u>	<u>\$ 215,649</u>
Receivable from affiliated company (Note 5)	51,936	11,973
Mine supplies, at cost	50,614	40,991
Prepaid expenses	18,511	10,254
Refundable deposits	13,860	8,856
Investment in mining project	7,500	—
	<u>\$ 283,651</u>	<u>\$ 287,723</u>
	<u>\$1,136,520</u>	<u>\$1,348,778</u>

Auditors' Report

To the Shareholders of
Glen Lake Silver Mines Limited.

We have examined the consolidated balance sheet of Glen Lake Silver Mines Limited and its wholly-owned subsidiary, Hiho Silver Mines Limited, as at July 31, 1967 and the consolidated statements of operations, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the determination of the income tax status of the company's subsidiary to which reference is made in Note 7, these consolidated financial statements present fairly the financial position of the companies as at July 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
October 11, 1967.

FISHER, NISKER & COMPANY,
Chartered Accountants.

LIMITED – CONSOLIDATED BALANCE SHEET as at July 31, 1967

(with comparative figures as at July 31, 1966)

LIABILITIES

CURRENT LIABILITIES

	1967	1966
Wages and employees' deductions payable	\$ 31,623	\$ 7,870
Royalties payable	8,069	22,306
Accounts payable	92,040	111,283
Estimated liability for Ontario mining taxes	16,482	24,592
Payable to affiliated companies	7,994	11,786
	<u>\$ 156,208</u>	<u>\$ 177,837</u>

CAPITAL AND SURPLUS

CAPITAL STOCK (Note 6)

Authorized:

5,000,000 shares, par value \$1 each

Issued and fully paid:

3,100,005 shares	\$3,100,005	\$3,100,005
Less — discount thereon	2,330,000	2,330,000
	<u>\$ 770,005</u>	<u>\$ 770,005</u>

EARNED SURPLUS, per statement	210,307	400,936
	<u>\$ 980,312</u>	<u>\$1,170,941</u>

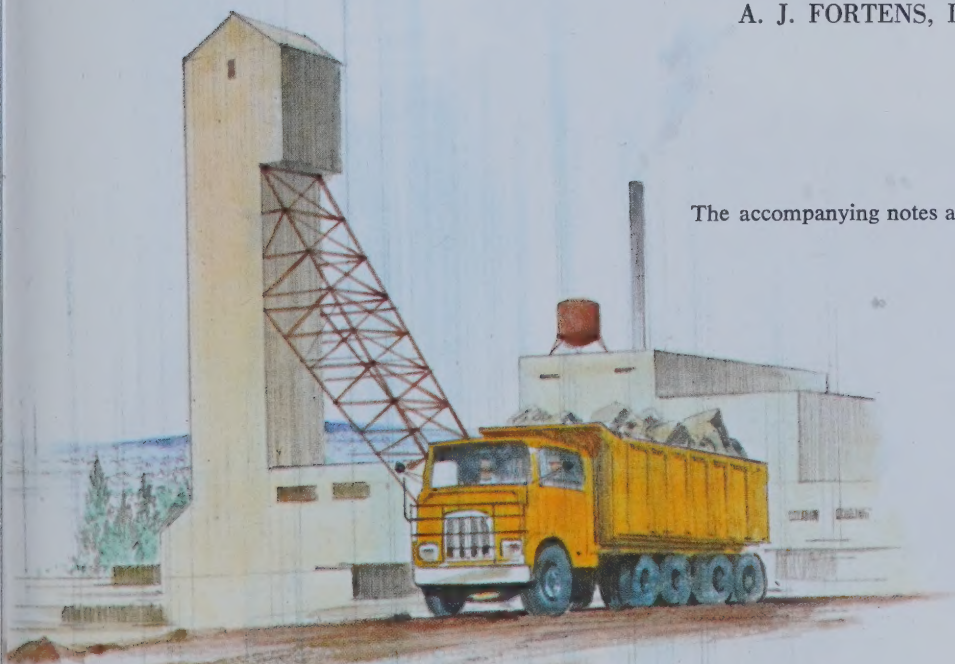
Approved on behalf of the Board of Directors:

FRANK CADESKY, Director.

A. J. FORTENS, Director.

<u>\$1,136,520</u>	<u>\$1,348,778</u>
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The accompanying notes are an integral part of the financial statements.





GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

Consolidated Statement of Operations

FOR THE YEAR ENDED JULY 31, 1967

(With comparative figures for the year ended July 31, 1966)

REVENUE

	1967	1966
Production of concentrates, flotations and metallics	\$1,715,500	\$1,878,010
Less — smelter and other marketing costs	\$ 199,155	\$ 186,161
— royalties	39,137	35,212
	\$ 238,292	\$ 221,373
	\$1,477,208	\$1,656,637

OPERATING EXPENSES

Mine development	\$ 345,388	\$ 341,025
Mining	238,908	206,030
Milling, including rental of mill — \$31,533 (Note 9)	189,812	125,061
General and office expense at the property	64,249	78,157
General and administrative expenses	157,953	137,395
Ontario mining taxes — estimated	15,480	30,820
	\$1,011,790	\$ 918,488

OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION	\$ 465,418	\$ 738,149
Deduct — depreciation of buildings, machinery and equipment	\$ 109,734	\$ 107,331
— amortization of preproduction expenditures and shaft sinking costs	141,230	178,481
	\$ 250,964	\$ 285,812

OPERATING PROFIT	\$ 214,454	\$ 452,337
Add — sundry revenue	\$ 7,752	\$ 9,002
— profit on disposal of machinery and equipment	—	160
	\$ 7,752	\$ 9,162

	\$ 222,206	\$ 461,499
Deduct — outside exploration expenditures	125,190	114,035

NET PROFIT FOR THE YEAR (Note 7)	\$ 97,016	\$ 347,464
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GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED



Consolidated Statement of Earned Surplus

FOR THE YEAR ENDED JULY 31, 1967

(With comparative figures for the year ended July 31, 1966)

	1967	1966
BALANCE AT BEGINNING OF YEAR	\$ 400,936	\$ 55,328
Add — net profit for the year	97,016	347,464
	<u>\$ 497,952</u>	<u>\$ 402,792</u>
Deduct — dividends paid	\$ 231,750	\$ —
— mining claims abandoned (acquired for cash)	5,895	233
— cash consideration for option to purchase mining claims, option lapsed	50,000	—
— adjustment of 1965 mining taxes	—	1,623
	<u>\$ 287,645</u>	<u>\$ 1,856</u>
BALANCE AT END OF YEAR	<u>\$ 210,307</u>	<u>\$ 400,936</u>





GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED JULY 31, 1967

(With comparative figures for the year ended July 31, 1966)

SOURCE OF FUNDS	1967	1966
Profit for the year	\$ 97,016	\$ 347,464
Add expenses not involving an outlay of funds during period:		
Allowance for depreciation	109,734	107,331
Preproduction and shaft sinking expenses written off	141,230	178,481
Funds provided from operations	\$ 347,980	\$ 633,276
Decrease in prepaid expenses	—	3,142
Decrease in mine stores inventory	—	7,168
Advances repaid by affiliated companies	—	10,764
Proceeds from sale of equipment	—	640
	<u>\$ 347,980</u>	<u>\$ 654,990</u>
APPLICATION OF FUNDS		
Dividends paid	\$ 231,750	\$ —
Additions to buildings and equipment	45,247	72,560
Shaft sinking and related costs	66,811	110,645
Increase in non-current receivables from affiliated companies (net)	39,963	—
Increase in mine stores inventory	9,623	—
Increase in prepaid expenses	8,257	—
Payments to purchase leases on mining claims	3	35,000
Payments to purchase options on mining claims	10,000	70,000
Refundable deposits	5,004	—
Investment in mining project	7,500	—
Increase in 1965 Ontario mining tax	—	1,623
Special refundable tax	19,121	5,350
	<u>\$ 443,279</u>	<u>\$ 295,178</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(\$ 95,299)	\$ 359,812
WORKING CAPITAL AT BEGINNING OF PERIOD	404,848	45,036
WORKING CAPITAL AT END OF PERIOD	<u>\$ 309,549</u>	<u>\$ 404,848</u>
REPRESENTED BY:		
Current assets	\$ 465,757	\$ 582,685
Current liabilities	156,208	177,837
	<u>\$ 309,549</u>	<u>\$ 404,848</u>

GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED



Notes to Consolidated Financial Statements

JULY 31, 1967

NOTE 1 — Mining leases

The mining leases held by the companies as at July 31, 1967 are as follows:

(1) A lease on two parcels of mining lands known as the "Bailey Property" in the District of Temiskaming, Ontario (held by Glen Lake)	\$	1
(2) A lease on certain contiguous parcels of land in the District of Temiskaming, Ontario (held by Hiho Silver)		1
(3) A lease on a parcel of land in the District of Temiskaming (held by Hiho Silver)		35,000
(4) A lease on certain parcels of land in the District of Temiskaming, Ontario (held by Hiho Silver)		1
(5) Leases on two parcels of land in the District of Temiskaming, Ontario (held by Hiho Silver)		2
		<u>\$ 35,005</u>

The lease shown under (1) above (which is the Glen Lake's producing property) was acquired by an agreement dated February 1, 1961. This lease is for a period of ten years from the date of agreement, subject to the right of renewal. The lease provides for a royalty of 10% of net smelter returns received from ores removed from the mining lands and sold. For accounting purposes this lease is recorded at a nominal value of \$1.00.

The lease shown under (2) above was acquired by agreement dated May 9, 1963. The lease is for a period of five years, renewable for further five-year terms and provides for an annual rental of \$6,000 and a royalty of 10% of the net smelter returns on all ore shipped from the property. Annual rentals can be applied to reduce the royalty payments. The company has an option to purchase the mining lands covered by the lease for \$75,000. All rents and royalties paid to the lessor during the lease period may be applied on account of the purchase price. The company may terminate this lease at any time upon giving the lessor one month's written notice.

For accounting purposes this lease is recorded at a nominal value of \$1.00.

The lease shown under (3) above was acquired on August 31, 1965. The lease expires on October 1, 1968 and can be renewed for an additional ten years.

The lease shown under (4) above was acquired by agreement dated July 25, 1967. This lease is for a period of one year from July 31, 1967 and is renewable automatically from year to year at a rental of \$500 per month.

The lease also provides for payment to the lessor of a royalty of 25% of the net profits from mining operations carried out on the mining properties. Monthly rentals can be applied to reduce the royalty payments. Should the properties come into production, the 25% royalty on net profits is not payable until Hiho Silver has recovered out of the cash profits all of its preproduction expenditures and capital outlays for machinery, buildings and equipment.

Hiho has agreed to expend a minimum of \$50,000 per year on exploration, development and capital outlays on the mining properties. Any excess expenditure in any yearly term shall be carried forward to be credited against expenditures required to be made in ensuing years.

For accounting purposes this lease is recorded at nominal value of \$1.00.

The leases shown under (5) above were acquired on May 31, 1967. The leases expire on May 31, 1972 and can be renewed for an additional five years.

NOTE 2 — Mining claims

The following is a summary of the mining claims held by the companies as at July 31, 1967:

Certain contiguous parcels of land in the District of Temiskaming, Ontario (includes the producing property) acquired by Hiho Silver for cash	\$ 130,000*
50% interest in unpatented mining claims in the Larder Lake Mining Division, Ontario, at written down value	1
	<u>\$ 130,001</u>

* No provision for depletion of the cost of the company's producing property is made, which is consistent with Canadian accounting practice.

NOTE 3 — Option on mining claims

Hiho Silver Mines Limited paid \$30,000 for a working option expiring June 10, 1968, on certain mining claims in the District of Temiskaming, Ontario. The option may be extended for an additional year on payment of \$10,000. Hiho Silver may, after it has expended a minimum of \$150,000 on the property, purchase the said claims for the sum of \$400,000 to be paid \$100,000 annually for four years or incorporate a new company to acquire the claims, in which case the optionor will receive a 25% interest in the new company and Hiho Silver will receive 75%.

Hiho Silver Mines Limited can terminate the agreement on thirty days notice.

NOTE 4 — Depreciation and amortization

Depreciation of buildings, machinery and equipment and amortization of preproduction expenses and shaft sinking costs are provided to write off these costs over the estimated life of the producing properties.

NOTE 5 — Receivable from affiliated mining company

This mining company is not in a position at the present time to repay the \$51,936. Collectibility is dependent upon the success attained by it in the development of its mining property or upon future financing.

NOTE 6 — Donated shares

Of the 900,000 shares of capital stock of Glen Lake Silver Mines Limited issued for mining claims, 10,000 shares were donated back to Glen Lake by the vendors. These shares are held in escrow and are registered in the name of the Guaranty Trust Company of Canada as trustee to be dealt with only on the written direction of the company and the Ontario Securities Commission.

NOTE 7 — Income taxes

Glen Lake Silver Mines Limited was exempt from income taxes for the three-year period ended July 31, 1965. No provision for income taxes has been made for the years ended July 31, 1966 and July 31, 1967 on Glen Lake's operations because development, preproduction and shaft sinking expenses are available to offset profits.

Hiho Silver Mines Limited has made application to the Department of National Revenue for a three-year tax exemption period to commence August 1, 1964, for its Cleopatra property. The Department has indicated it is not presently prepared to grant such exemption. Counsel for the company has advised that in their opinion the subsidiary company should be entitled to the exemption. The subsidiary company accordingly proposes to dispute and contest any assessment for income taxes which may arise from revenue earned during its first three-year period of operations. Hiho has also made application for a three-year tax exemption period to commence January 1, 1966 for its Giroux Lake property. The Department has not yet notified the company of its decision on this application.

Under the circumstances, no provision for income taxes has been made in these financial statements. Should the Department of National Revenue assess Hiho Silver Mines Limited on profits arising from its mining operations, and if such assessment is upheld, income taxes on its operations from inception (August 1, 1964) to July 31, 1967 could amount to approximately \$200,000.

NOTE 8 — Directors' and officers' remuneration

Total remuneration paid during the year ended July 31, 1967 to directors and senior officers as defined by the Ontario Corporations Act amounted to \$93,703.

NOTE 9 — Lease of mill

By an agreement dated May 31, 1967 Hiho Silver Mines Limited leased the LaRose mill from Silver Town Mines Limited for a period of three months commencing June 1, 1967, in consideration of Hiho rehabilitating the mill. To date Hiho has expended \$31,533 on the rehabilitation and tune-up of the mill.

Silver Town granted to Hiho an option to purchase the LaRose mill during the term of the lease for a consideration consisting of Hiho's Bailey mill and \$40,000 cash, which option was exercised on August 28, 1967. Silver Town then leased back to Hiho the Bailey mill for a period of three months commencing September 1, 1967, at a rental of \$1.00 per ton of ore milled by Hiho in the Bailey mill.

NOTE 10 — Dividends declared after balance sheet date

Payable on September 15, 1967 to shareholders of record on August 31, 1967 at 02½¢ per share — \$77,250.



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